

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 SPC-03 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

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R 051320Z DEC 73

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 4527

C O N F I D E N T I A L SECTION 1 OF 2 BUENOS AIRES 8820

E.O. 11652: N/A

TAGS: ECON, AR

SUBJECT: ARGENTINE FOOTWEAR EXPORTS TO US

REFS: A. STATE 233376, B. BA A-329, C. BA A-052, D. BA A-001,

E. BA A-427 31 AUG 72, F. BA A-405 14 AUG 72

1. EXPORT INCENTIVES GRANTED TO ARGENTINE FOOTWEAR INDUSTRY BY GOA ARE PART OF GENERAL PROGRAM TO EXPAND FOREIGN SALES OF SOCALLED NON-TRADITIONAL, MANUFACTURED PRODUCTS. DETAILS OF THIS EXPORT PROMOTION PROGRAM HAVE BEEN REPORTED PREVIOUSLY, IN REFS B, D, E AND F. SPECIFIC APPLICATION OF EXPORT INCENTIVES TO FOOTWEAR INDUSTRY WAS DESCRIBED IN REF C. FOLLOWING UPDATE OF SITUATION REGARDING SHOE EXPORTS TO THE US DERIVED FROM INDUSTRY SOURCES AND FREELY AVAILABLE OFFICIAL PUBLICATIONS, WITHOUT RESORT TO DIRECT CONTACTS WITH GOA OFFICIALS.

2. AS EXPORTERS OF "NON-TRADITIONAL" PRODUCTS SHOE MANUFACTURERS ARE ELIGIBLE FOR A NUMBER OF BENEFITS. MOST SIGNIFICANT IS CASH REIMBURSEMENT (REEMBOLSO) OF 30 PERCENT OF FOB VALUE OF EACH SHIPMENT. THIS AMOUNT DEPOSITED AUTOMATICALLY BY CENTRAL BANK IN EXPORTER' SCURRENT ACCOUNT IN LOCAL BANK, GENERALLY WITHIN 60 DAYSO OF SHIPMENT. SHIPMENTS TO CERTAIN "NEW MARKETS" NOT INCLUDING US, ARE ELIGIBLE FOR ADDITIONAL FIVE PER CENT OF FOB VALUE. PERCENTAGE RANGE OF AUTHORIZED REIMBURSEMENTS REACHES 40 PER CENT FOR CERTAIN OTHER PRODUCT LINES, PRIMARILY MACHINERY. OTHER

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BENEFITS AVAILABLE TO SHOE EXPORTERS INCLUDE:

A) DIRECT EXPORT FINANCING OF AS MUCH AS 80 PER CENT OF THE FOB VALUE OF SHIPMENTS, FOR PERIOD UP TO 18 MONTHS, WITH INTEREST RATE NOW 7.5 PER CENT;

2) "POST-FINANCING" LOANS FOR AMOUNTS UP TO 40 PER CENT OF THE FOB VALUE OF EXPORTS, FOR 180 DAYS, WITH INTEREST 10.75 PER CENT;

3) REDUCTION OF FIRMS TAXABLE INCOME BY 10 PER CENT OF FOB VALUE OF EXPORTS; AND

4) EXEMPTION FROM PAYMENT OF NORMAL 10 PER CENT SALES TAX LEVIED ON DOMESTIC SALES.

3. WITH REGARD TO THE EXPORT FINANCING AND POST FINANCING, NOTE THAT PRESENT RATES FOR STRAIGHT COMMERCIAL BANK LOANS OVERS IMILAR PERIODS, INCLUDING INTEREST AND SERVICE CHARGES, NOW RUN AROUND 24 PER CENT. THE EXPORT-RELATED LOAN PROGRAMS, HOWEVER, INVOLVE BUREAUCRATIC PRCEURES OF SUCH COMPLEXITY THAT MOST SHOE MANUFACTURERS MAKE RELATIVELY LITTLE USE OF THEM, HAVING INSUFFICIENT STAFF TO COPE WITH REQUIRED PAPERWORK. REIMBURSEMENTS, IN CONTRAST, ARE RECEIVED WITH MINIMAL EXTRA EFFORT BY EXPORTERS BEYOND SUBMISSION OF NORMALLY-REQUIRED SHIPPING DOCUMENTS TO BANKS AND CUSTOMS AUTHORITIES. PAYMENT ARRANGED THROUGH COMPUTERIZED REPORTING CHANEL BETWEEN CUSTOMS AGENCY AND CENTRAL BANK.

4. REGARDING ACUTAL VOLUME OF SHOE EXPORTS TO THE US, EMBASSY UNABLE TO RECONCILE FIGURES GIVEN IN STATE 233376 WITH OFFICIAL GOA EXPORT DATA, OR WITH DATA IN USDOC MONTHLY COMPILATIONS OF US IMPORTS. MISSION WOULD APPRECIATE KNOWING WHICH TARIFF POSITIONS WERE USED TO COMPARE US IMPORTS OR ARGENTINE NON-RUBBER FOOTWEAR FOR 1972 AND 1973. OFFICIAL GOA STATISTICS FOR FULL YEAR 1972 SHOW EXPORTS OF LEATHER SHOES TO US OF 575,569 PAIRS, WITH FOB VALUE OF 2.4 MILLION DOLLARS. SALES TO US ACCOUNTED FOR 81 PER CENT OF TOTAL ARGENTINE LETHER SHOE EXPORTS. US IMPORT DATA SHOW SMALLER NUMBERS IN BOTH VOLUME AND VALUE. OFFICIAL GOA DATA NOT YET AVAILABLE FOR SIGNIFICANT PERIOD IN 1973, BUT INCREASE IS CERTAINLY STRIKING IN PERCENTAGE TERMS. PROJECTING FROM OFFICIAL US IMPORT FIGURES FOR THE FIRST SEVEN MONTHS, TOTAL
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LEATHER FOOTWEAR IMPORTS FROM ARGENTINA SHOULD APPROACH THREE MILLION PAIRS FOR CY1973, WORTH MORE THAN 12.0 MILLION DOLLARS FOB. THIS IS REMARKABLE GROWTH FROM 1970 FIGURES OF 55 THOUSAND PAIRS AND 219 THOUSAND DOLLARS, BUT STILL CONTRASTS SHARPLY WITH HIGHER BRAZILIAN GROWTH RATES FROM FAR LARGER BASE OVER SAME PERIOD. ALSO, ARGENTINE SHARE OF TOTAL VALUE US FOOTWEAR IMPORTS THROUGH AUG 1973 ONLY 1.2 PER CENT.

5. PROSPECTS FOR CONTINUED FUTURE EXPANSION OF ARGENTINA LEATHER FOOTWEAR EXPORTS TO US ARE UNCERTAIN AT PRESENT. NO HIGHLY FOCUSED GOA PLAN TO PUSH SHOE EXPORTS AS SUCH EXISTS, AND APPROACH OF LOCAL SHOE INDUSTRY HAS BEEN LARGELY PASSIVE RESPONSE TO SUDDEN INCREASE IN INTEREST ON PART OF FOREIGN (ESPECIALLY US) BUYERS. GROWTH TO DATE IS PRIMARILY RESULT OF US BUYERS TURNING TO ARGENTINE SOURCES UNDER PRESSURE OF HIGH PRICES, LABOR DIFFICULTIES IN ITALIAN INDUSTRY. LOCAL SHOE INDUSTRY HIGHLY ATOMIZED, GENERALLY UNDERCAPITALIZED AND BACKWARD IN COMMERCIAL METHODS, AND HAS NOT PURSUED EXPORT MARKET VERY AGGRESSIVELY. INDUSTRY ALSO NOT EFFECTIVELY REPRESENTED IN GOA CIRCLES FOR PURPOSES OF ENCOURAGING MORE ACTIVE GOVERNMENT ASSISTANCE. CONTINUED RAPID EXPANSION OF EXPORTS IMILAR TO 1973 PERFORMANCE DEPENDENT ON SUBSTANTIAL FUTURE INVESTMENT IN PLANT AND EQUIPMENT, AS MUCH OF AVAILABLE IDLE CAPACITY HAS ALREADY BEEN COMMITTED TO EXPORT PRODUCTION OR IS UNSUITED TO EXPORT REQUIREMENTS. PRESENT ECONOMIC AND POLITICAL CLIMATE DOES NOT ENCOURAGE SUCH INVESTMENT DECISIONS BY EITHER ARGENTINE OR FOREIGN INVESTORS. ASSUMING TOTAL EXPORT TO US OF APPROXIMATELY THREE MILLION PAIR IN 1973,

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 SPC-03 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

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R 051320Z DEC 73

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 4528

C O N F I D E N T I A L SECTION 2 OF 2 BUENOS AIRES 8820

A TARGET OF FOUR TO FIVE MILLION PAIR MIGHT BE FEASIBLE DURING CY74. THIS ASSUMES, HOWEVER, THAT US BUYERS CONTINUE TO RENEW THEIR ORDERS WITH LOCAL FACTORIES AND SIGNIFICANT AMOUNTS OF CREDIT FOR PLANT EXPANSION ARE MADE AVAILABLEBY GOA.

FAVORABLE EVOLUTION OF INVESTMENT CLIMATE WOULD CREATE POSSIBILITIES FOR SALE OF SEVERAL MILLION DOLLARS WORTH OF NEW US EQUIPMENT TO ARGENTINE SHOE MANUFACTURERS, ACCORDING TO STUDY OF INDUSTRY UNDERTAKEN BY EMBASSY OVER LAST SEVERAL MONTHS. USDOC AND EMBASSY NOW ENGAGED IN PREPARATION OF EXHIBITION OF SHOE MANUFACTURING AND LEATHER GOODS EQUIPMENT TO BE HELD IN BUENOS AIRES JUNE 1974 TO TAKE ADVANTAGE OF ARGENTINE COMPANIES PLANS FOR EXPANSION OF PRODUCTION. APPLICATION OF COUNTERVAILING DUTIES BY USG WOULD SUBSTANTIALLY REDUCE POSSIBILITIES FOR US TO RECAPTURE SHARE OF EQUIPMENT MARKET ONCE DOMINATED BY US SUPPLIERS AND LOST TO ITALIANS AND GERMANS.

6. EMBASSY CONSIDERS APPLICATION OF COUNTERVAILING DUTIES IN THIS CASE COULD SERIOUSLY AFFECT OUR BILATERAL ECONOMIC AND POLITICAL RELATIONS. EXPORT INCENTIVES AVAILABLE TO SHOE MANUFACTURERS ARE AVAILABLE TO FULL RANGE OF MANUFACTURED, NON-AGRICULTURAL EXPORTS, EXPANSION OF WHICH IS ONE OF GOA'S CENTRAL PRIORITIES. RETALIATION VERSUS SHOE EXPORTS COULD BE VIEWED AS THREATENING ENTIRE EXPORT EXPANSION DRIVE AND
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WOULD EXACERBATE ARGENTINE IRRITATION OVER TRADITIONAL TRADE DEFICIT WITH US. IN OUR VIEW, SUCH FRICTION WOULD PROBABLY BE HIGHLY DISPROPORTIONATE TO IMPORTANCE OF ARGENTINE FOOTWEAR EXPORTS WITHIN WHOLE CONTEXT OF US FOOTWEAR IMPORTS DURING 1973 AND FOR THE FORESEEABLE FUTURE.
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